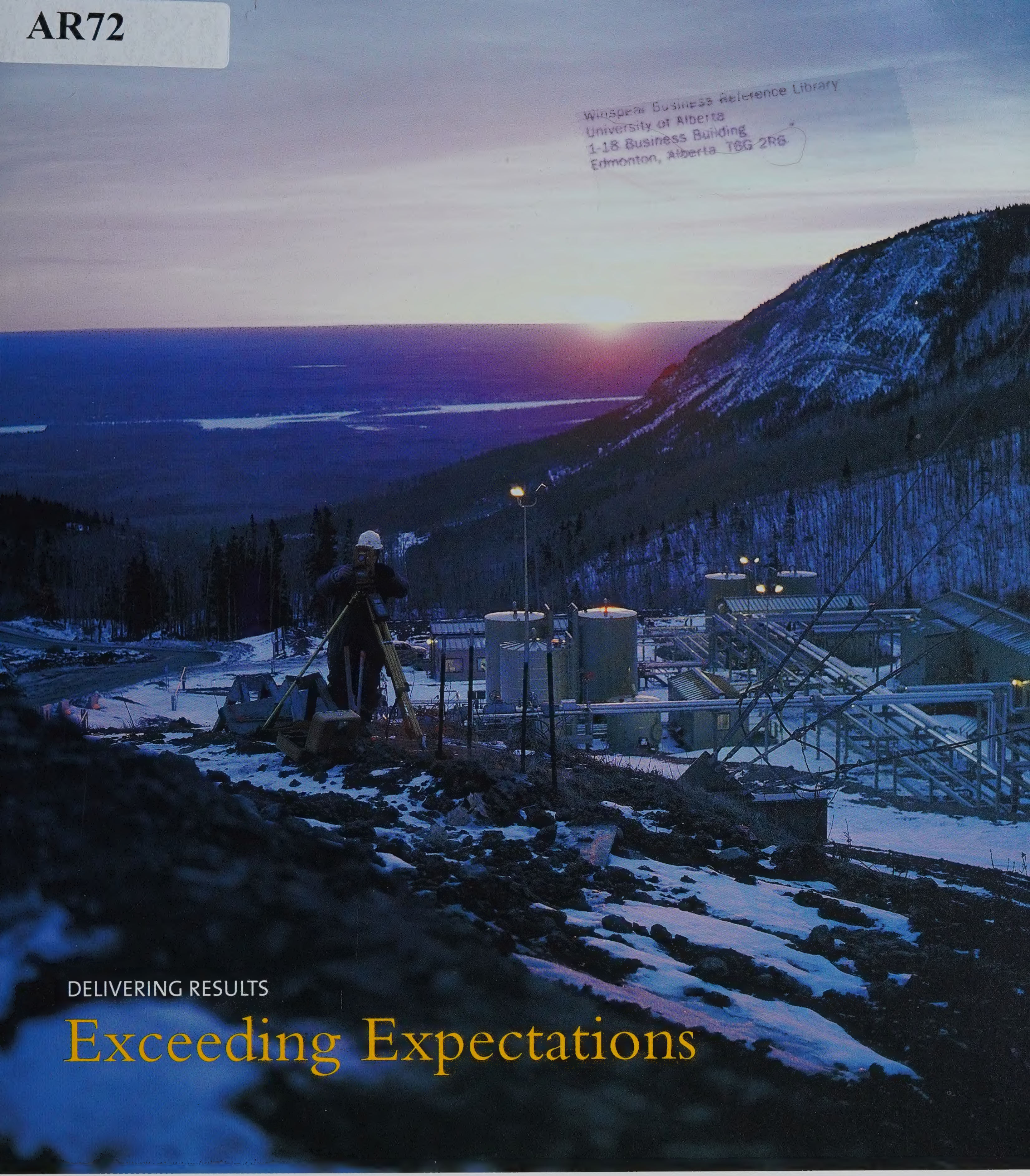


DELIVERING RESULTS

Exceeding Expectations

PURCELL ENERGY LTD.

2000 ANNUAL REPORT

CORPORATE PROFILE

Purcell Energy Ltd. is an oil and gas exploration company which has translated a world-class natural gas discovery into growth and opportunity. The Company has a growing base of natural gas and crude oil exploration prospects and producing properties in **British Columbia** and **Alberta** as well as a significant interest in the Fort Liard, **Northwest Territories** natural gas play. Purcell's hallmark is applying available technology and information to new discoveries and prospects. This approach has posted **substantial gains** in reserves value and production **for shareholders**. Purcell Energy is headquartered in Calgary, Alberta and listed on the **Toronto Stock Exchange**, symbol **PEL**

HIGHLIGHTS

($000 except where indicated)

	Q4 2000	Q4 1999	% change	**Year 2000**	Year 1999	% change
Revenue	**11,312**	1,563	624	**24,750**	6,138	303
Cash flow from operations	**8,965**	352	2,446	**17,890**	2,015	788
Per share, basic ($)	**0.367**	0.015	2,347	**0.730**	0.088	730
Net income (loss)	**4,305**	(168)	–	**8,226**	247	3,230
Per share, basic ($)	**0.176**	(0.007)	–	**0.335**	0.011	2,945
Capital expenditures	**5,866**	4,727	24	**22,104**	6,637	233
Total assets				**63,763**	34,924	82
Long-term debt				**13,706**	2,796	390
Common shares outstanding						
Basic at December 31 (000)				**24,569**	24,796	(1)
Fully diluted (000)				**28,495**	27,378	4
Production						
Natural gas (mmcf/d)	**17.00**	3.57	376	**10.71**	3.68	191
Crude oil and liquids (bbls/d)	**557**	595	(6)	**539**	584	(8)
Equivalent (BOE/d)	**3,390**	1,189	185	**2,322**	1,197	94
Product prices						
Natural gas ($/mcf)	**6.47**	2.11	207	**4.99**	2.26	121
Crude oil ($/bbl)	**36.97**	23.45	58	**37.83**	19.62	93
Reserves, proven + 1/2 probable						
Natural gas (bcf)				**70.5**	74.9	(6)
Crude oil and liquids (mbbls)				**1,937**	2,189	(11)

Note: 1. BOE: 6 mcf equal to 1 bbl
2. At March 15, bank debt was $9.2 million, representing a drop of 33 percent from year end 2000.

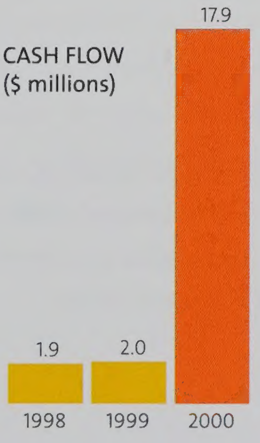
NOTICE OF ANNUAL MEETING

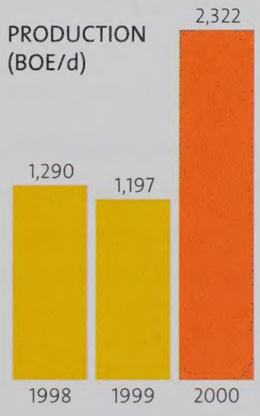
The annual and special meeting for shareholders will take place on Thursday, May 24, 2001 at 2:30 pm in the Bow Valley Square Conference Centre. All shareholders are invited to attend, but if unable to, are encouraged to fill out and return the proxy.

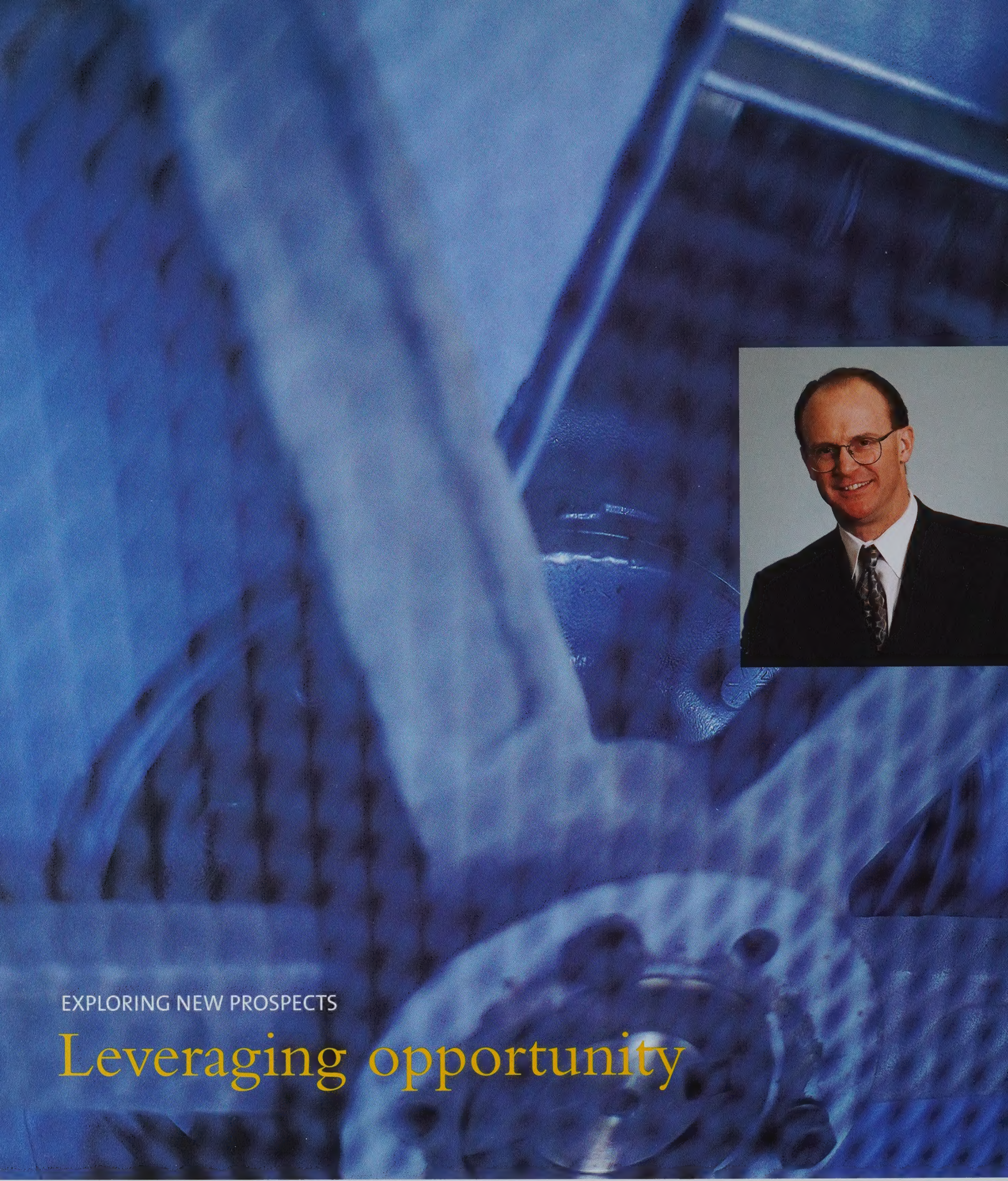
CONTENTS

EXPLORING THE LIMITS

Expanding Horizons







EXPLORING NEW PROSPECTS

Leveraging opportunity

THE SOURCE

Fort Liard represents a long-term source of steady cash flow that not only has substantial potential to grow with more drilling on existing land, but creates the opportunity for re-investment in immediate and longer-term opportunities for crude oil and natural gas exploration and development in other areas of western Canada.

With the world-class Fort Liard project almost in full production, Purcell is generating new opportunities in areas with high quality natural gas and crude oil prospects.

TO OUR SHAREHOLDERS

2000 was a memorable year for Purcell with revenue clearing $24 million, up from $6.1 million in 1999. Revenue up four times and cash flow up almost nine times in 2000 were the result of Fort Liard, NWT coming on stream with strong gas prices. Purcell averaged 2,322 BOE (6 mcf = 1 bbl) per day in production with 58 percent contributed by two wells in Fort Liard.

The success of Fort Liard, more than living up to our expectations, has led to many new exploration opportunities in the Northwest Territories, as well as in British Columbia and Alberta. Purcell is well on the road to leveraging its "company-maker" play into sustained growth in reserves and production.

HIGHLIGHTS AT FORT LIARD

The activity level at Fort Liard was high throughout the year. The year began with the testing of M-25 (24 percent interest) and facilities and pipeline construction that allowed the K-29 well (24 percent interest) to be put on stream as of April 29, 2000. With that milestone achieved, construction of the tie-in pipeline and additional facilities for M-25 was underway. M-25 turned out to be a similar well to K-29, capable of 70 to 75 mmcf per day of production. M-25 commenced production on November 1, 2000, meeting budget and schedule targets. With the focus on the two large wells through much of the year, recompleting the original discovery well at F-25A was postponed until after year end. A relatively smaller well, F-25A is expected to produce at 10 to15 mmcf per day of raw gas with Purcell having a larger interest at 60 percent. Therefore, all three Fort Liard wells have substantial impact on the Company and will continue to do so for many years.

TALISMAN/PURCELL EXPLORATION AGREEMENT

Our interest in new exploration targets in the region continues to be high and our exploration agreement with Talisman Energy has been productive. However, land rights are not readily available so lead-time to develop new prospects is significant, and not entirely in our control. The next land sale is expected in early 2002. With our success and the learning curve we've experienced developing the first three wells in the play, we are eager to move forward with new opportunities in the greater Fort Liard region. Exploration work continues with a seismic acquisition program to be conducted in summer, 2001.

DEVELOPING NEW OPPORTUNITIES

With the substantial increase in Purcell's financial capability as a result of Fort Liard, we directed our attention to developing new prospect areas for the Company. We've created excellent potential in specific areas of British Columbia and northern Alberta that are already showing promise with drilling success. A total of 23,000 net acres of exploration lands were acquired in northeast British Columbia in the past year. Purcell may earn a 50 percent interest in a further 13,600 acres by drilling three wells under a farm-in agreement. Other land deals are under negotiation and once secured, we will be able to disclose additional information on this key exploration area.

It is also important to realize that while we are encountering the success that we anticipate having a meaningful impact on the Company, there are few areas in western Canada on the scale of Fort Liard. To keep it in perspective, the average production rate from a western Canadian natural gas well is less than 0.5 mmcf per day compared to the 70 to 75 mmcf per day generated by the wells in our Nahanni gas pool at Fort Liard. With that perspective in mind, we feel we are capitalizing on the opportunity made possible by Fort Liard and expect to have solid results to report throughout 2001.

MANAGING GROWTH AND RISK

A significant achievement for Purcell has been financing our opportunities and realizing their value while maintaining a solid balance sheet. During 2000, we financed $22 million in capital spending, ending the year with bank debt of $13.7 million (only $6.2 million net of working capital) which was reduced to $9.2 million as at March 15, 2001. Just as important, we have financed our projects with little dilution to shareholders with basic common shares plus the 1.5 million special warrants outstanding at year end up by only five percent from the prior year.

2001 PROGRAM: $48 MM

A November 2000 special warrants issue results in the diluted shares outstanding reaching 28.5 million, or a one percent increase from year end 1999. The issuance of 1.5 million common shares, through special purchase warrants, generated net proceeds of $5.8 million and will be combined with an anticipated $43 million in cash flow to fund a $48 million capital program. At present, only $10 million of Purcell's 2001 capital budget is committed to specific projects. Continuing our exploration focus, a substantial portion of that capital is earmarked for land, seismic and drilling activity. Most of the investment will be directed to further investigation in the Northwest Territories and select exploration prospects in British Columbia, Alberta and Saskatchewan.

$5.47 PER SHARE NET ASSET VALUE

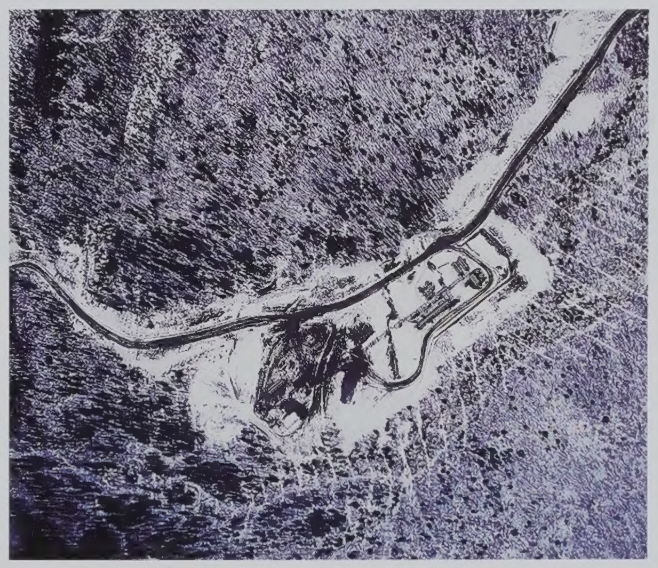
Also reflected in Purcell's value is a net present value of our established crude oil and natural gas reserves of $154.5 million. This supports a net asset value of $5.47 per diluted share which represents an increase of 70 percent from year end 1999. Important perspectives on Purcell's reserves values are the higher prices prevailing at year end 2000 which were used in the third-party evaluations and the fact that limited production history at Fort Liard resulted in a conservative approach to assessing those reserves. We think that year end 2001 will result in more reserves volumes assigned to existing wells at Fort Liard in addition to new reserves which have already been added through drilling in other areas in early 2001.

CONTINUED STRONG FUNDAMENTALS

Those of us in the oil and gas industry had long anticipated that market values for crude oil and, particularly, for natural gas would begin to rise as the world's demand began to catch up with the productive capability. Through 2000, this eventuality appeared to come true and, for the first time since the early 1980s, the prices for crude oil and natural gas increased and sustained significantly higher values simultaneously. Continuing pressures on electricity supply and a harsh winter in the eastern US are supporting strong natural gas prices through early 2001. While there are many indicators that 2000 prices represented a peak, most market indicators reflect continued strong prices, even if slightly lower than those realized at the end of 2000. We agree with that outlook and expect that our Fort Liard production will benefit from the prevailing market conditions.

MARKETING AND FORWARD SELLING

At the time of signing our contracts for Fort Liard gas production, we did not anticipate just how high natural gas prices would go by the end of 2000. Along with many producers, we locked into a price that, at the time, was exceptional. We did not predict the price spikes that occurred in December which were especially notable at the Sumas export point. In December 2000, Purcell purchased a supply contract offsetting our existing sales contracts and paid for additional firm transportation, effectively exposing most of our Fort Liard gas to Sumas spot prices in 2001. This arrangement required Purcell to pay performance deposits aggregating $5 million, but we expect to recover all or most of this in 2001 as the difference between our purchase contract price and prevailing prices has supported the decision. We may or may not engage in forward sales contracts for a portion of our production in the future, depending on the outlook for prices. At all times, we focus on the larger picture of the trade-off between ensuring capital availability to fund our future growth and maximizing the benefit of high prices.



Fort Liard from above.

OUTLOOK FOR 2001

For the industry, there are mixed signals on the horizon. It appears that commodity prices have support from the supply/demand balance, significantly affected by OPEC discipline as well as North American electricity shortages. The investing public is largely ignoring the energy sector despite these strong fundamentals and that is evident in the high rate of attrition among public oil and gas companies. A sustained period of undervalued share prices leaves all but a few companies vulnerable to takeover. The situation creates excellent opportunity for US-based companies to capitalize on the strength of the US dollar relative to Canadian currency. The mid-sized oil and gas company in Canada all but disappeared during 2000.

PURCELL: ONE OF THE FEW MID-SIZED JUNIOR GROWTH COMPANIES

For Purcell, there continues to be a strong outlook for growth in financial performance and value additions. We recognize an opportunity for the Company to be seen in the industry as one of the few medium-sized, junior growth exploration companies. This unique market position, in conjunction with the continuing excellent performance from Fort Liard, the addition of new exploration plays and strong commodity prices, should prove beneficial to Purcell and its shareholders.

Based on expected average production rates at Fort Liard and first quarter 2001 drilling results, Purcell's 2001 average production is anticipated to be 5,000 BOE (6mcf = 1bbl) per day. Using budgeted commodity prices of CDN$6.50 per mcf for natural gas and US$25 per barrel for the West Texas Intermediate reference price, the Company's cash flow for 2001 is forecast to reach $43 million ($1.67 per share, basic).

One of our commitments for 2001 is to continue to work on our quality of information disclosure to our investors with the objective of maximizing value for shareholders as reflected in the share price. It seems fitting that Purcell, as a company that looks to every possible application of state-of-the-art technology in our oil and gas exploration activities should also look to maximize the utility of the internet in order to bring quality information to our shareholders and potential investors. To that end, we have combined annual report preparation with cutting-edge web technology to create a truly interactive online annual report at www.purcellenergy2000.com.

We have a strong core of committed professionals at Purcell and their technical expertise and dedication to the Company are greatly appreciated. We also value the advice and guidance given by our independent directors.

On behalf of the Board,

Jan M. Alston
President & CEO

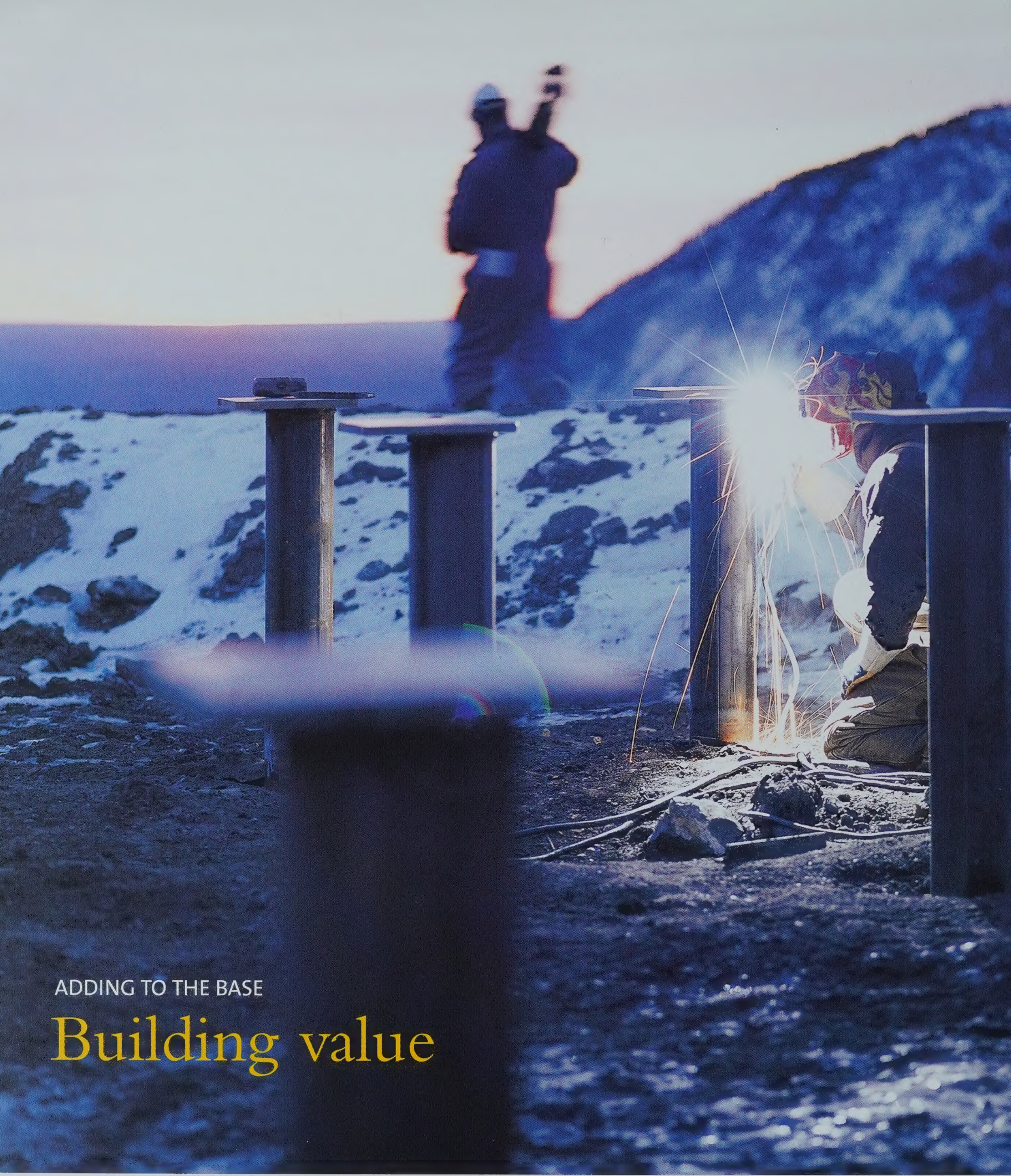
March 21, 2001

EFFICIENT OPERATIONS

Maximizing impact

RECOGNIZING AND REALIZING OUR OBJECTIVES

Throughout its operations, Purcell has made improving the overall efficiency of its operating base a corporate objective recognizing that the increasing costs associated with finding and producing oil and gas require a competitive edge.



ADDING TO THE BASE

Building value

GROWTH CONTINUES

The magnitude of Fort Liard will result in it being key to Purcell's growth profile for many years. In 2001, northeastern B.C. will become a feature investment area as well.

At Purcell, we've found that putting extra effort into maximizing the capability of available technology can reap rewards. We're uncovering overlooked opportunity with exploration success.

Purcell's Fort Liard project continues to be the cornerstone of the Company's activity and value. As a true "company-maker" play the area will warrant our attention and exploration interest for many years to come. It also made the transition in 2000 from prospective to realized opportunity. Purcell is taking the opportunity presented by Fort Liard to pursue new exploration in a variety of areas in western Canada. While early in their development, we have many promising prospects defined and beginning to generate results.

AN UPDATE FROM FORT LIARD

Purcell has production from two prolific wells in Fort Liard. The first well on production, K-29, produced 14.5 bcf of raw gas through 2000, beginning on April 29 and averaged 59 mmcf per day of raw gas for the last eight months of the year (14 mmcf per day net to Purcell). On a producing day basis, the K-29 well averaged 68 mmcf per day. The K-29 well is still capable of producing at 70 to 75 mmcf per day. The operator is investigating possible modifications to the K-29 facility that will enable production at these higher rates. The well's production is tied in through a Purcell and partner-owned natural gas line that was constructed in early 2000 and delivers the natural gas to the Westcoast Energy Pipeline Terminus at Pointed Mountain located 15 miles away. Associated water production is pumped down a partner-owned disposal well. The water cut is readily managed with minimal impact on the well's economics. Even with regularly scheduled, annual shutdowns for maintenance, operating costs average $0.07 per mcf of sales gas contributing to solid netbacks.

The second well drilled in the area, M-25, produced through November and December of 2000 and averaged 48 mmcf of raw gas per day for the two months (11.6 mmcf per day net to Purcell). In early 2001, M-25's rate was ramped up to 71 mmcf per day. Combined gross raw gas production from the two wells averaged 112 mmcf per day during the first two months of 2001 and Purcell's net sales gas averaged 19.1 mmcf per day.

DRILLING LOCATIONS

Growing production

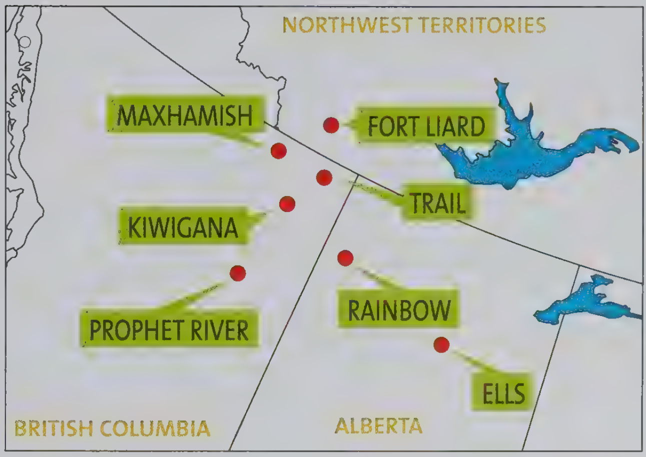
EXPLORING IN WESTERN CANADA

Purcell is dedicated to exploration – growth by the drill-bit. The Fort Liard discovery was a once-in-a-lifetime find, but we are uncovering a multitude of interesting prospects throughout western Canada, including more world-class prospects at Fort Liard, that we're aggressively pursuing to continue to grow the Company.

The third opportunity was to re-enter the discovery well at F-25A and re-complete the well. It was recompleted in February, 2001 and is expected to be on production in the second quarter of 2001. It is expected to start producing at approximately 10 mmcf per day with 60 percent of that production to Purcell's interest. The extended flow test in February 2001 suggests that production rates from the F-25A well should increase once on production. Purcell is working to obtain additional processing and transportation capacity for rates above 10 mmcf per day.

Purcell's production is transported to a Westcoast Energy facility in Fort Nelson, B.C. under an agreement that guarantees transportation of 25 mmcf per day of net sales gas. The long-term agreement signed with Westcoast ensures low costs to deliver our production to market.

Activities under an exploration joint venture agreement with Talisman Energy continue to increase our understanding of the area and its geology. While many new opportunities have been identified with several trillion cubic feet of gas reserves potential, there has not been any new land available. Because of the quality of the opportunities, we will continue our exploration program in the area. Additional seismic data will be acquired this year to competitively position Purcell for land sales. Purcell expects the next land sale in the greater Fort Liard area to occur in early 2002.



EXPLORATION PROSPECTS

OUR STRATEGY

Now that Purcell has a solid cash flow base at Fort Liard, the Company is in a position to move forward on a number of exploration projects developed over the last several years. Purcell adheres to the concept that the best return on capital comes from successful full cycle exploration. This holds true now more than ever during the prevailing strong commodity prices. The long-term part of our strategy is our exploration joint venture in the greater Fort Liard region with our partner, Talisman Energy. Our medium-term exploration is focused on northeastern British Columbia. The short-term part of our strategy is to pursue moderate risk exploration projects in northwestern Alberta and southeastern Saskatchewan.

NORTHEASTERN BRITISH COLUMBIA:

MEDIUM-TERM GROWTH PROSPECTS

Purcell's exploration strategy for northeastern British Columbia is gaining momentum. For the past three years Purcell has developed several natural gas exploration plays, with both shallow and deep potential, in northern British Columbia. A total of 23,000 net acres of explorative lands were acquired in the past year. We intend to continue to aggressively add to our acreage position. On our Kiwigana prospect we drilled and cased an exploratory well in the

first quarter of 2001. Results are encouraging but will remain confidential pending further land acquisitions in the area. We expect to acquire additional seismic on the play with further drilling slated for early 2002. At Maxhamish, the Company may earn a 50 percent interest in a further 13,600 acres by drilling three wells under a farm-in agreement. A significant seismic acquisition program has been conducted by Purcell under this farm-in arrangement.

In a third northeastern British Columbia, gas-prone area, Purcell has negotiated options to earn a 60 percent working interest in up to 31 sections (22,000 gross acres) of land.

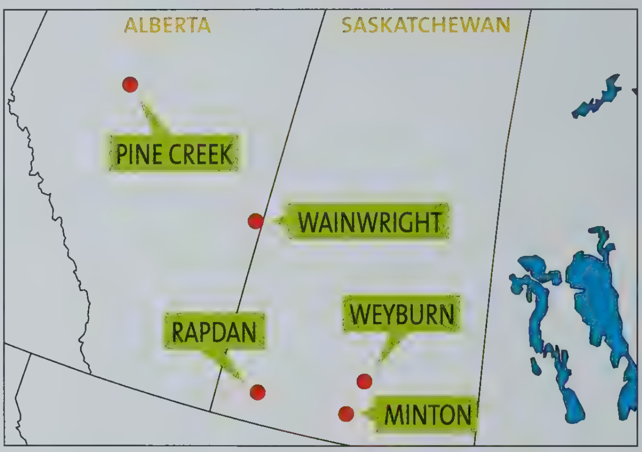
Purcell is also negotiating a joint venture with a major company to explore 35 sections of land for shallow and deep gas potential.

In March 2001, the Company drilled a gas well at Fireweed in northeastern British Columbia. This well (35 percent interest) will be on production in June 2001 at an anticipated initial rate of 1.0 to 1.5 mmcf per day with 18 bbls per mmcf of liquids.

NORTHWESTERN ALBERTA: SHORT-TERM GROWTH PROSPECTS

In January 2001, Purcell successfully drilled a gas well at Pine Creek, Alberta. Adjacent land was acquired at a first quarter land sale. The well has been completed and will be tied in by June 2001. Initial production rates are expected to be three mmcf per day with 25 bbls per mmcf of liquids. Purcell has a 75 percent interest, before payout and a 45 percent interest after payout. The Company has two similar prospects in the area that it plans to drill in 2001 on land it has acquired.

At Rainbow in northwestern Alberta, Purcell is drilling an oil prospect in the first quarter under a farm-in agreement. The Company is paying 100 percent of the costs to earn a 60 percent interest. The well has the potential to produce at a rate of 200 bbls per day with two additional development locations already identified.



OTHER PRODUCING AREAS

MINTON, SASKATCHEWAN

As of August 1, 2000, Purcell increased its interest in Minton to 82 percent from 70 percent. Effective January 1, 2001 the Company increased its interest to 100 percent. The Company now has 3,680 acres in the project with nine producing wells averaging 220 barrels per day of crude oil production. An increased focus on reducing operating costs combined with much stronger oil prices in 2000 resulted in excellent cash flow from the project. In addition, Purcell owns 100 percent of the deep rights which have the potential to generate a new play in the same project area, adding value to the existing operation. Seismic data have been acquired over the prospect. A test well is planned for summer 2001 which offers good potential for substantial light oil production. Purcell invested $1.4 million in the area in 2000 and expects to invest up to $2.5 million in 2001.

SDL 119
P-66A
PL 10
EL 363
EL 365
EL 363
18 BCF
K-29
POINTED MOUNTAIN FIELD
Gross Sales Gas
320 BCF
(to date)
Gross Sales Gas
Proved: 184 BCF
P+P: 296 BCF
8.6 BCF
M-25
F-25A
Q2, 2001
WESTCOAST PIPELINE
TERMINUS
FISHERMAN LAKE
EL 380
O-80
EL 382
EL 380
FORT
LIARD
WESTCOAST ENERGY
GAS PIPELINE
FORT NELSON
NORTHWEST
TERRITORIES
Nahanni Butte
Fort Liard
BRITISH
COLUMBIA
ALBERTA
5,000 sq. mi.
Purcell/Talisman
Joint Venture
EL 381
KOTANEELEE FIELD
Gross Sales Gas
160 BCF
(to date)
0
5KM
LEGEND
Purcell land
Water disposal well
Gas well
Gas pipeline

CONCENTRATING OUR FOCUS

Expanding our expertise

IN HOUSE EXPERTISE

Purcell has developed in-house expertise in exploration and field activity management. As the Company continually improves in every area of its business, it adds expertise to focus operations where impact can be maximized.

ELLS/BIRCH TAR, ALBERTA

This area has long-life shallow gas reserves. The Company has working interests varying from eight to 14 percent in 126 sections of land at Ells. Production net to Purcell is approximately 0.9 mmcf per day.

The Birch Tar area, in which Purcell has interests varying from 4.5 to 15 percent, is a low-risk, shallow gas property. In the first quarter of 2001, a total of nine development wells were drilled adding to the 15 wells drilled in 1999 and 2000. Twelve of the new wells are being tied in during the first quarter. By the second quarter of 2001, Purcell expects to receive incremental net gas production from Birch Tar of approximately 1.0 mmcf per day.

WAINWRIGHT, ALBERTA

Purcell has interests varying from 2.6 to 32 percent in Wainwright Units 2, 5 and 7, located in east-central Alberta. The units have long-life reserves with annual production declines of five to six percent. Production net to Purcell from the property is approximately 130 BOE per day.

RAPDAN, SASKATCHEWAN

Rapdan has been a consistent performer contributing 74 barrels per day from 13 (11 net) wells. No development spending is anticipated in the area for 2001.

WEYBURN, SASKATCHEWAN

Weyburn offers production from vertical and horizontal wells which averaged 68 barrels per day for 2000. Purcell's 87 percent working interest in 1,289 (809 net) acres in the area allows for the potential of further activity, but the Company has no plans for the near future.

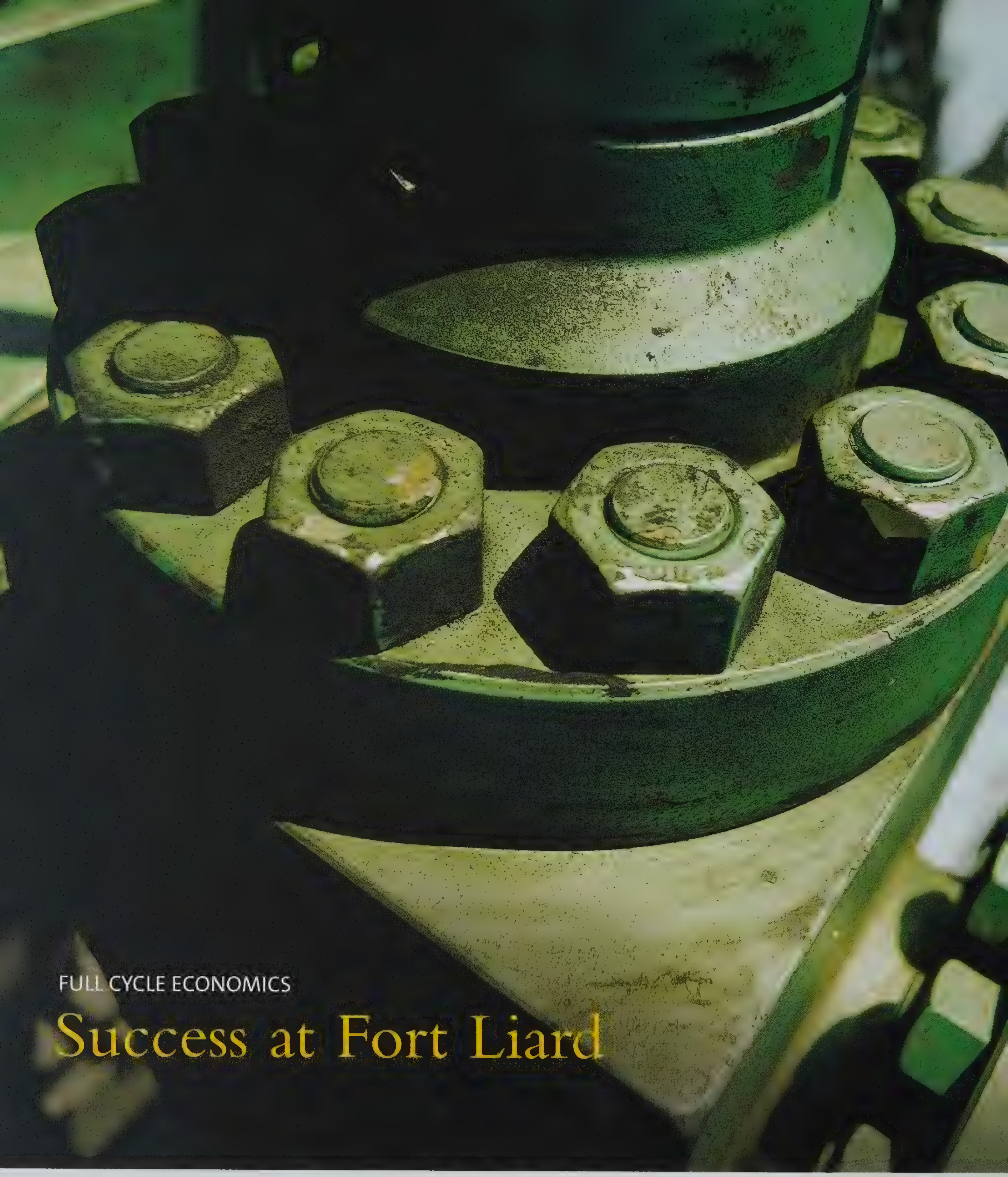
Above expectations: Reinvestment for future success.

Drilling Activity

	2000		1999	
	Gross	**Net**	Gross	Net
Exploratory				
Gas	**3**	**0.42**	2	0.48
Oil	–	–	–	–
Dry	–	–	–	–
Development				
Gas	–	–	–	–
Oil	–	–	2	0.60
Dry	–	–	–	–
Total	**3**	**0.42**	4	1.08

OUTLOOK FOR 2001

Exploration activity has the potential to generate significant impact on the Company. Purcell has realized excellent results with new prospects developed in 2000. For 2001, there will be more activity at all stages of the exploration cycle. Drilling successes in early 2001 have led to additional land purchases and further seismic and drilling activity. Exploration activity in a variety of locations includes geology, seismic and drilling. Exploration results will be reported once Purcell's land positions have been secured. We will be reporting on exploration results throughout 2001.



FULL CYCLE ECONOMICS

Success at Fort Liard

WORLD CLASS PLAY

With the long lead-time finally over, Purcell's results in 2000 began to reflect the financial implications of the world-class natural gas play at Fort Liard, NWT. And with natural gas prices sustained at record high levels, the timing couldn't have been better.

Commodity price strength and solid performance at Fort Liard create an excellent financial position for Purcell. New opportunities being pursued in 2001 are anticipated to continue the growth profile.

MEETING EXPECTATIONS

In our 1999 annual report to shareholders, we laid out a forward-looking discussion to anticipate the financial impact of Fort Liard on Purcell. In that discussion, we outlined a range of anticipated market prices and costs in order to show the bottom-line effect of bringing Fort Liard on production during the first quarter of 2000. Through the quarterly reports, we were able to report on our progress that reflected major projects occurring as planned or ahead of schedule and the unexpected results of crude oil and natural gas prices at all-time highs throughout the year.

The 2000 financial performance for Purcell reflects a transformation of the Company from a small junior producer to a mid-sized junior company with solid operating and financial results. Purcell was able to fund its share of capital commitments to bring Fort Liard on stream, maintaining a solid balance sheet with little dilution to existing shareholders, ending the year with production and cash flow capability that exceeded our expectations.

Highlights of the year:

- Completion of the pipeline in Fort Liard and additional facilities costs were significant components in a $22 million capital investment program,
- Revenue of $24.7 million and cash flow of $17.9 million, $0.73 per basic common share, were new milestones,
- Natural gas production of 10.7 mmcf per day reflects two Fort Liard wells on production for a portion of the year,
- Prices of $4.99 per mcf and $37.83 per barrel had a significant impact on cash flow.

Note: All Barrel of Oil Equivalent (BOE) calculations assume 6 mcf = 1 bbl

RESULTS OF OPERATIONS

PRODUCTION REVENUES AND COMMODITY CONTRACTS

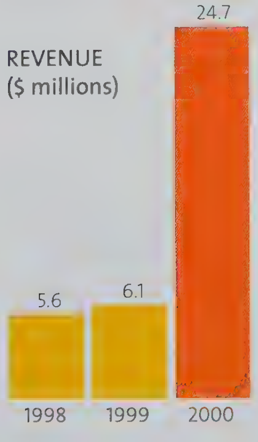
Revenue of $24.7 million in 2000 represents a four-fold increase over the $6.2 million recorded a year earlier. Of the increase, $16.4 million was generated from Fort Liard with eight months of production from one well and two months from a second well. That contribution will increase in 2001 with a full year from both wells and a third, larger interest but lower rate well expected to begin producing in the second quarter of 2001. Average natural gas production of 10.7 mmcf per day represents an increase of 191 percent from 3.7 mmcf per day in 1999. Average crude oil and liquids production was 539 bbls per day, an eight percent decrease from 584 bbls per day in 1999.

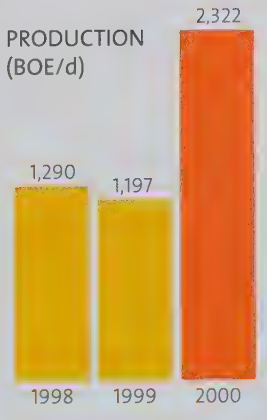
Both natural gas and crude oil revenue were positively affected by commodity prices that were up throughout the year. Influencing the natural gas price realized were forward-sales contracts. Crude oil is sold to the spot market and receives prevailing market prices. The Company, through a multi-disciplinary group of management professionals, periodically enters into forward sale and/or purchase contracts in order to manage commodity price risks. Details of the Company's accounting policies in this regard are disclosed in Note 2(i) of the consolidated financial statements. As at December 31, 2000, Purcell entered into sales arrangements as detailed in Note 10(b). The Company also entered into a purchase contract to fill some of the outstanding forward sales commitments. The purchase decision was made to better capitalize on prevailing natural gas prices in the market by ensuring that the natural gas production from Fort Liard was sold at spot prices after March 31, 2001. Given the anticipated increase in production volumes and the inherent volatility of commodity prices, Purcell has employed the services of external, professional advisors to provide information and guidance for the Company's long-term, risk management strategies.

The expectation for Fort Liard performance published in the 1999 annual report reflects production results as anticipated but with slight differences in timing. The initial well produced at expected rates over the time period and was brought on-stream, on time and on budget. The second well, M-25, was more slowly ramped up than originally expected and produced for two months of 2000 instead of the anticipated three months. One month of production was anticipated from the F-25A re-entry well but that production will not begin until the second quarter of 2001. It is still expected to contribute net sales gas rates of 4.2 mmcf per day for three quarters of 2001. Purcell's original expectations were too optimistic for an exit rate for 2000. Whereas the Company realized an exit rate of 18.4 mmcf per day of sales gas for December 31, 2000, we now expect all three wells to produce at a maximum rate of 26-28 mmcf/d of net sales gas in the second quarter of 2001. Significantly different than anticipated was the average natural gas price which had been conservatively budgeted at $3.60 per mcf and, instead, averaged $4.99 per mcf for the year.

GAINING RECOGNITION

Realizing value





Production by Area

	2000			1999		
	Natural gas	**Crude oil & liquids**		Natural gas	Crude oil & liquids	
	(mmcf/d)	**(bbls/d)**	**BOE/d**	(mmcf/d)	(bbls/d)	BOE/d
Northwest Territories – Fort Liard	**8.04**	–	**1,340**	–	–	–
British Columbia	**0.09**	**1**	**16**	0.23	20	58
Alberta – Ells/Birch Tar	**1.03**	–	**172**	1.18	–	197
– Joarcam	**0.24**	**30**	**70**	0.33	30	85
– Monitor	**0.80**	**6**	**139**	1.19	9	207
– Wainwright	**0.11**	**123**	**141**	0.18	117	147
– Other	**0.40**	**43**	**108**	0.57	84	179
Total Alberta	**2.58**	**202**	**630**	3.45	240	815
Saskatchewan – Minton	–	**144**	**144**	–	108	108
– Rapdan	–	**73**	**73**	–	72	72
– Weyburn/Tatagwa	–	**111**	**111**	–	132	132
– Other	–	**8**	**8**	–	12	12
Total Saskatchewan	–	**336**	**336**	–	324	324
Total Purcell	**10.71**	**539**	**2,322**	3.68	584	1,197

Revenue Impact

($ thousands)	Crude oil	Natural gas	Total
1999 Revenue, before royalties	4,222	3,118	7,340
Increase (decrease) due to:			
Price	3,557	10,485	14,042
Volume	(365)	6,077	5,712
Acquisitions	131	–	131
Dispositions	(10)	(110)	(120)
2000 Revenue, before royalties	7,535	19,570	27,105

EXPENSES

All expense categories reflect the effect of a much higher level of activity as a result of the Fort Liard project coming on stream. The growing production base should result in a continued trend of reduced costs per unit of production.

ROYALTIES

Crown royalties for 2000 were $2.03 million, up from $1.06 million in 1999. Freehold and other royalties paid totaled $0.46 million compared to $0.40 million in 1999. Royalty rates are linked to commodity prices which were substantially higher in 2000 than in 1999. The Alberta Royalty Tax Credit amounted to $112,000 in 2000 compared to $266,045 in 1999. The Alberta Royalty Tax Credit declined as a percentage of royalties as commodity prices increased.

PRODUCTION EXPENSES

Production expenses reflect the costs of operating eight months of production at Fort Liard along with production costs from Purcell's properties in Alberta and Saskatchewan. While total costs rose by 59 percent to $4.1 million from $2.6 million, costs per unit produced dropped by 18 percent to $4.88 per BOE compared to $5.97 per BOE a year earlier. Production costs declined per BOE due to the Fort Liard production. A focus on reducing costs at other Purcell properties and disposing of smaller high operating cost properties is ongoing.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses, before capitalization and recoveries, increased by 29 percent to $2.3 million in 2000. The increase is mainly due to personnel costs that increased by 32 percent to $1.3 million with the addition of full-time and contract technical staff added to the exploration department during the year, and the payment of year-end bonuses. Net general and administrative costs declined to $1.74 per BOE of production in 2000 from $2.50 per BOE in 1999 as a result of the larger production base.

INTEREST EXPENSE

An increased debt balance carried through 2000 to fund the major capital commitments at Fort Liard led to higher interest expense of $1.0 million in 2000 compared to $0.2 million in 1999. It is important to note that bank debt was reduced significantly early in 2001. Other opportunities aside, a low debt balance is expected to be maintained throughout 2001.

DEPLETION AND SITE RESTORATION

The 169 percent increase in depletion to $4.8 million from $1.8 million in 1999 is a direct reflection of the Fort Liard project coming on stream. The rate of depletion for 2000 was $5.59 per BOE relative to $4.04 per BOE for 1999. The early stage of Fort Liard development has resulted in a conservative estimate of its reserves that has led to a relatively higher depletion rate than expected. New exploration projects combined with another year of Fort Liard production history should lead to additional reserves volumes and a drop in the depletion rate in future years.

INCOME TAXES

Purcell is currently not taxable except for federal large corporation taxes and provincial capital taxes. Tax pools available to the Company are detailed in Note 8 to the consolidated financial statements. Assuming that Purcell spends its capital budget as planned, Purcell should remain non-taxable during 2001. Purcell has adopted the recommendation of the Canadian Institute of Chartered Accountants and recorded a future income tax liability of $5.2 million at December 31, 2000.

CASH FLOW AND EARNINGS

Purcell reached a new performance threshold in 2000 with cash flow of $17.9 million compared to $2.0 million in 1999. Per share, cash flow reached $0.73 ($0.70 diluted) compared to $0.09 ($0.08 diluted). Similarly, net earnings of $8.2 million in 2000 resulted in per share earnings of $0.33 ($0.32 diluted) compared to $0.2 million in 1999 or $0.01 per share ($0.01 diluted). The Company adopted a new accounting guideline in 2000 for the calculation of per share amounts as described

in Note 2(m) to the consolidated financial statements. This change in accounting was applied retroactively to prior years, however, the changes did not significantly affect the amounts previously reported.

Netback Analysis

($/BOE)	2000	1999
Revenue [1]	**31.90**	16.85
Royalty expenses	**2.80**	2.82
Production expenses	**4.88**	5.97
General and administrative expenses	**1.74**	2.51
Financing charges	**1.14**	0.58
Capital taxes	**0.30**	0.37
Cash flow from operations	**21.04**	4.60
Depletion and depreciation	**5.59**	4.04
Future income taxes	**5.77**	–
Net earnings	**9.68**	0.56

Quarterly Summary

($000, unless otherwise indicated)

	2000				1999			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production								
Natural gas (mcf/d)	**17,001**	**12,183**	**10,591**	**2,957**	3,570	3,470	3,282	4,389
Crude oil & NGL (bbls/d)	**557**	**498**	**513**	**588**	595	555	634	543
BOE/d	**3,390**	**2,528**	**2,278**	**1,081**	1,190	1,134	1,181	1,274
Sales Prices [1]								
Natural gas ($/mcf)	**6.47**	**4.33**	**3.95**	**2.82**	2.11	2.44	2.58	1.98
Crude oil & NGL ($/bbl)	**36.97**	**41.81**	**36.75**	**36.17**	23.45	20.02	19.87	14.62
Revenue, net	**11,312**	**6,122**	**5,068**	**2,248**	1,564	1,483	1,764	1,327
Cash flow	**8,966**	**4,408**	**3,344**	**1,172**	352	599	584	480
Capital expenditures [2]	**6,397**	**5,509**	**4,854**	**5,892**	6,126	728	820	1,713
Bank debt	**13,700**	**17,550**	**14,377**	**10,405**	2,711	315	5,897	5,296
Share Trading								
High ($)	**3.98**	**4.00**	**4.00**	**3.80**	3.48	3.30	2.65	1.68
Low ($)	**3.05**	**2.60**	**3.00**	**2.20**	2.10	2.16	1.25	0.80
Close ($)	**3.90**	**3.03**	**3.83**	**3.25**	3.30	2.80	2.24	1.47
Volume (000s shares)	**6,345**	**4,991**	**5,611**	**5,723**	5,051	8,865	19,963	4,520

(1) Revenue and sales prices are net of transportation costs.

(2) Capital expenditures exclude proceeds from dispositions.

LIQUIDITY AND CAPITAL RESOURCES

Purcell's challenge over the past year was to finance its substantial Fort Liard opportunity. Partner agreements resulted in all costs to drill the K-29 well being covered by partners through 1999. However, Purcell incurred sizeable capital commitments with the drilling of the M-25 well and with development activity to bring the project on-stream. Purcell was successful in meeting these needs with only very marginal dilution to shareholders and retaining its strong balance sheet. Now with steady and growing cash flow being generated from Fort Liard and other properties, Purcell is in a much stronger position to internally fund and generate growth.

CAPITAL PROGRAM

The 2000 capital program of $22.1 million was funded by cash flow and bank debt. Seventy-seven percent of the program was directed to pipeline and facility investment at Fort Liard. The 1999 program had only $5 million directed to Fort Liard as a substantial portion of the drilling phase was at the cost of partners. While the development spending in 2000 did not have significant impact on reserve volume additions, it is notable in property, plant and equipment which increased from $32.4 million in 1999 to $50.8 million in 2000, an increase of 57 percent. The 2001 program involves more drilling in British Columbia, Alberta and Saskatchewan, and is expected to lead to more reserves additions. Budgeted capital expenditures of $48 million for 2001 are anticipated to be funded from cash flow from operations and bank debt. Budgeted cash flow for 2001 is based on production from wells that have been drilled to date. At present, only $10 million of Purcell's 2001 capital budget is committed.

Capital Expenditures

($ millions)	**2000**	1999
Exploration and development	**7.4**	6.0
Acquisitions (dispositions)	–	(2.0)
Facilities and gathering systems	**13.6**	2.3
Undeveloped land and other	**1.1**	0.3
Total	**22.1**	6.6

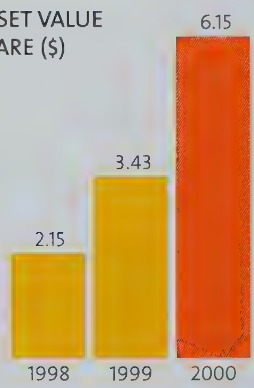
FINDING AND DEVELOPMENT COSTS

The success at Fort Liard resulted in significant reserves assigned at the end of 1999 but with only a partial year's production in 2000, the reserves evaluation takes into account production but no additional reserves. Additional reserves are expected to be assigned when a longer production history proves up the estimated volumes. As a result, year end 2000 reflects a conservative estimate at Fort Liard. For this reason, calculating 2000 finding and development costs is meaningless as capital spending was required to place Fort Liard on stream yet no reserves are posted against that investment. However, a meaningful finding and development cost is obtainable by considering the cumulative spending over 1998, 1999 and 2000 along with the reserves added during the period. The three-year finding and development costs are $5.31 per BOE using proved reserves only, $4.76 per BOE using proved plus one-half probable and $4.31 per BOE using total proved and probable reserves.

ASSESSING RESULTS

Planning for the future

NET ASSET VALUE
PER SHARE ($)



Reserves values were affected by substantially higher prices used in the evaluation at year end 2000. With only a small increase in shares outstanding, the net asset value per basic share at December 31, 2000 was $6.15 compared to $3.43 per basic share at year end 1999, representing an increase of 79 percent.

Reserves Reconciliation

Total proved reserves	Light & Medium Crude oil (mbbls)	Heavy Crude oil (mbbls)	NGL (mbbls)	Natural gas (bcf)	Equivalent (mBOE)
December 31, 1999	783	1,064	13	56.0	11,193
Revisions of previous estimates	(59)	14	(1)	(1.2)	(246)
Purchases	51	–	–	–	51
Extensions, discoveries and improved recovery	–	–	–	1.0	167
Production	(122)	(72)	(3)	(3.9)	(847)
Dispositions	(31)	–	–	(0.1)	(48)
December 31, 2000	622	1,006	9	51.8	10,270
Total proved plus probable reserves					
December 31, 1999	1,100	1,406	13	93.7	18,136
Revisions of previous estimates	(148)	20	1	(2.0)	(460)
Purchases	84	–	–	–	84
Extensions, discoveries and improved recovery	–	–	–	1.4	233
Production	(122)	(72)	(3)	(3.9)	(847)
Dispositions	(43)	–	–	(0.1)	(60)
December 31, 2000	871	1,354	11	89.1	17,086

Undeveloped Acreage

(acres, at December 31, 2000)	Gross	Net
Alberta	198,155	28,895
Saskatchewan	32,383	11,715
British Columbia	21,650	11,853
Northwest Territories	1,596	383
Total	253,784	52,846

Net Asset Value at December 31

($ millions, except per share)		2000	1999
Proved and 50% probable reserves (disc. 10%)		**$ 154.5**	$ 87.4
Undeveloped acreage		**2.5**	2.0
Working capital (deficiency)		**7.5**	(1.7)
Other assets		**1.0**	1.0
Long term debt and capital leases		**(13.7)**	(2.8)
Future site restoration liability, disc. 10%		**(0.8)**	(0.8)
Net asset value		**$ 151.0**	$ 85.1
Net asset value per share	- basic ($)	**6.15**	3.43
	- diluted ($)	**5.47**	3.23
Common shares outstanding	- basic	**24,569,440**	24,796,540
	- diluted	**28,494,540**	28,377,540

BANK CREDIT FACILITY

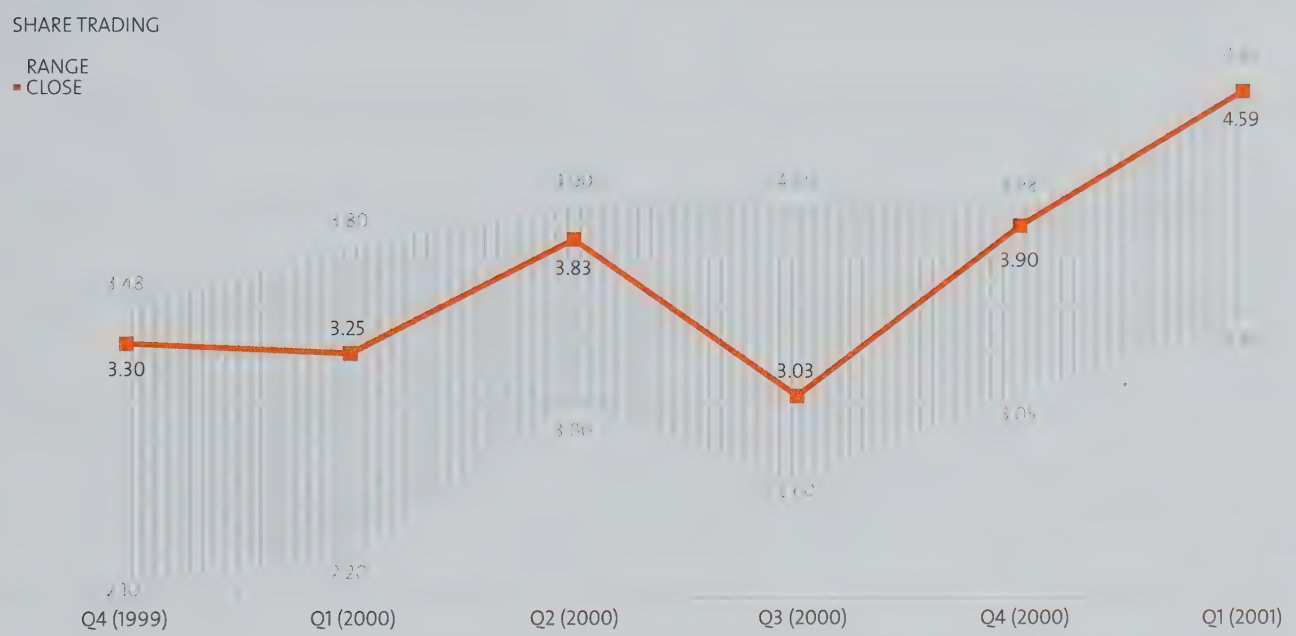
The Company has a credit facility with a Canadian chartered bank consisting of a revolving term facility of $16.5 million and a non-revolving term facility of $6.0 million. The revolving term facility and the non-revolving term facility bear interest at 0.25 percent and 1.25 percent, respectively, over the bank's prime lending rate and are secured by a general security agreement and a $50.0 million first floating charge demand debenture on Purcell's assets. The $16.5 million revolving term facility revolves until May 31, 2001. Purcell has requested that the revolving period be extended for an additional 364 days as permitted under the loan agreement. The facility is currently under review with the expectation that it will be increased. The Company also has a $750,000 equipment leasing facility provided by a Canadian chartered bank. The long-term portion of the obligation under capital leases and bank overdrafts are included in long-term debt.

At year end, Purcell had a debt to forward cash flow of 0.8 times and by mid-year 2001, the ratio is expected to be 0.3 times using actual debt and estimated 2001 cash flow. Maintaining a conservative balance sheet will continue to be an objective for the Company.

Capital Structure

($ thousands, at December 31)	2000	1999
Working capital (deficiency)	**7,476.7**	(1,695.6)
Long term debt	**13,705.9**	2,795.7
Accrued future site restoration liability	**745.0**	553.0
Shareholders' equity	**38,670.4**	27,349.4

Purcell shares trade on the Toronto Stock Exchange under the symbol PEL. Despite subdued interest in the oil and gas sector, Purcell had a record 22.7 million shares trade during the year, between a range of $2.20 and $4.00 per share. On October 17, 2000, Purcell completed a normal course issuer bid for the purchase and cancellation of 2 million common shares at a cost of $7.2 million. The bid was made because the shares were trading at a market price which was less than three times Purcell's estimated 2001 cash flow. Purchases under the bid were financed from cash flow. In November, 1.5 million special share purchase warrants were issued for $4.15 per share generating $6.2 million ($5.8 million net of fees) which will be directed to the 2001 capital program. With the closing of the issue, shares issued were 24,569,440 and 28,494,540 diluted.



BUSINESS RISKS

Purcell faces the same business risks as any participant in the energy industry. Ownership of common shares should be considered speculative. Exploration for oil and natural gas involves many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered by Purcell.

Purcell's asset value is based on the assessment of its oil and gas reserves that are third-party reviewed by Gilbert Laustsen Jung Ltd. (GLJ) except for the Wainwright reserves reviewed by Martin Brusset and Associates (Martin). The reserves report, prepared effective December 31 by GLJ and Martin, represents an estimate of Purcell's interest in its reserves and the future net production revenue derived there from. It is important to note that reserves reports include assumptions about the productive capability of each reservoir and each well into those reservoirs. Being estimates, each well and reservoir could perform differently than estimated, significantly altering the net production revenue ultimately realized.

Commodity price volatility is a significant factor which affects the success of the Company. Purcell is subject to price fluctuations which it can mitigate somewhat by entering into forward sales contracts to hedge the price it receives for its sales volumes. This approach assures a level of capital available for reinvestment but does not ensure that Purcell will necessarily receive the highest possible price available. A significant portion of Purcell's natural gas production generates revenue in US dollars. The Company is therefore subject to the foreign exchange risk based on the difference between the US and Canadian dollar. A portion of the Fort Liard gas sales contracts that extend to November 2001 has a defined foreign exchange rate which partially mitigates the effect of foreign exchange fluctuations.

Capital availability is another area of risk which the combination of high prevailing commodity prices for both crude oil and natural gas and Purcell's strong relationship with a major Canadian bank is mitigating for 2001. The lacklustre public markets are limiting that source of capital for Purcell and other companies in the same sector.

Increasing competition in western Canada is adding to the cost of doing business and therefore, increasing the financial risk. Competition also extends to the availability of qualified, professional staff. As for any business, Purcell's continued success is dependent upon its ability to attract and retain experienced management. These areas of competition are not any different than for any other active exploration and development company.

Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. Purcell expects it will be able to fully comply with all regulatory requirements.

Generally, the political and economic risks of working in Canada are perhaps as reasonable as anywhere in the world. Canada may suffer economically in conjunction with the economic slowdown in the US however this issue is not considered to be significant for the energy sector in Canada.

OUTLOOK

Purcell experienced a breakthrough year in 2000 realizing production and cash flow from its Fort Liard project. For 2001, the Company is looking to realize even greater cash flow from the Fort Liard project and also to begin to realize gains from high quality plays in other areas of Alberta and British Columbia. With exploration continuing to be the thrust of the Company's growth plan, Purcell's growth will develop over time with new opportunities that are at an early stage of development in 2001. As a solid mid-sized junior, Purcell now has the capacity to pursue a number of exploration projects simultaneously, broadening the scope of opportunity and increasing the sources of new production and cash flow. With Fort Liard results alone, Purcell is anticipating a significant improvement in results in 2001 over 2000. With even limited success in new ventures other than the Northwest Territories, Purcell anticipates a very strong year.

2000 ANNUAL REPORT

Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements and all information in the annual report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies outlined in the notes to the financial statements. Financial statements include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are safe-guarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

BDO Dunwoody LLP, the external auditors, conduct an independent examination of the financial statements in accordance with generally accepted auditing standards in order to express their opinion on the financial statements. Their examination includes a review and evaluation of the Corporation's system of internal control and such tests and procedures as considered necessary to provide reasonable assurance that the financial statements are presented fairly.

The audit committee of the Board of Directors, with a majority of its members being outside directors, have reviewed the financial statements including notes thereto, with management and BDO Dunwoody LLP. The financial statements have been approved by the Board of Directors on the recommendation of the audit committee.

Jan M. Alston	Terry L. Lindquist
President & CEO	Chief Financial Officer

March 21, 2001

To the Shareholders of
PURCELL ENERGY LTD.

We have audited the consolidated balance sheets of Purcell Energy Ltd. as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Calgary, Alberta

March 21, 2001

CONSOLIDATED BALANCE SHEETS

As at December 31

	2000	1999
ASSETS		
Current		
Cash	**$ 6,248**	$ 16,220
Accounts receivable (Note 3 and 9)	**7,460,180**	2,260,496
Marketable securities	**93,594**	–
Prepaid expenses and deposits (Note 2(c))	**5,169,087**	136,559
Inventory	**187,089**	117,324
	12,916,198	2,530,599
Property, plant and equipment (Note 4)	**50,847,114**	32,393,722
	$ 63,763,312	$ 34,924,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**$ 5,305,843**	$ 3,889,164
Corporate taxes payable	**54,393**	121,229
Current portion of obligations under capital leases	**79,287**	215,756
	5,439,523	4,226,149
Long term debt (Note 6)	**13,700,428**	2,710,994
Obligations under capital leases (Note 5)	**5,462**	84,749
Provision for future site restoration costs	**745,000**	553,000
Future income taxes	**5,202,526**	–
	25,092,939	7,574,892
SHAREHOLDERS' EQUITY		
Equity instruments (Note 7)		
Common shares, net	**30,506,893**	29,175,340
Special warrants	**6,042,175**	–
Preferred shares	**128,000**	128,000
Contributed surplus	**–**	529,818
	36,677,068	29,833,158
Retained earnings (deficit)	**1,993,305**	(2,483,729)
	38,670,373	27,349,429
	$ 63,763,312	$ 34,924,321

The accompanying notes are an integral part of these financial statements.

Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

For the years ended December 31

	2000	1999
Revenue		
Oil and gas sales, net of royalties	**$ 24,723,963**	$ 6,111,145
Interest and other	**26,424**	26,505
	24,750,387	6,137,650
Expenses		
Production	**4,145,886**	2,608,070
Depletion, amortization and site restoration	**4,755,000**	1,768,000
General and administrative, net	**1,478,157**	1,094,774
Interest on long term debt	**977,293**	254,906
	11,356,336	5,725,750
Income before corporate taxes	**13,394,051**	411,900
Corporate taxes (Note 8)		
Capital	**259,394**	164,887
Future income taxes	**4,908,819**	–
	5,168,213	164,887
Net income for the year	**8,225,838**	247,013
Deficit, beginning of year		
As previously reported	**(2,483,729)**	(2,730,742)
Adjustment for change in accounting policy (Note 11(a))	**470,888**	–
As restated	**(2,012,841)**	(2,730,742)
	6,212,997	(2,483,729)
Purchase price of common shares repurchased in excess of carrying value (Note 7)	**(4,219,692)**	–
Retained earnings (deficit), end of year	**$ 1,993,305**	$ (2,483,729)
Earnings per common share – basic	**$ 0.335**	$ 0.011
– diluted	**$ 0.320**	$ 0.010

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31

	2000	1999
Cash flows from operating activities		
Net income for the year	$ 8,225,838	$ 247,013
Add non-cash items:		
Future income taxes	4,908,819	–
Depletion, amortization and site restoration	4,755,000	1,768,000
Cash flow from operations	17,889,657	2,015,013
Changes in non-cash working capital balances		
Accounts receivable	(4,698,110)	(505,308)
Prepaid expenses and deposits	(5,032,528)	29,833
Inventory	(69,765)	(85,273)
Accounts payable and accrued liabilities	384,147	316,634
Corporate taxes payable	(66,836)	54,459
	8,406,565	1,825,358
Cash flows from financing activities		
Payments from (to) Liard Resources Ltd.	(99,053)	11,319
Issue of common shares, net of related expenses	3,895,915	5,150,986
Repurchase of common shares	(7,151,416)	–
Issue of special warrants, net of related expenses	5,894,991	–
Share purchase loans	(163,250)	–
Repayment of capital leases	(215,756)	(245,355)
Increase (decrease) in utilization of bank credit facilities	10,989,434	(2,445,026)
	13,150,865	2,471,924
Cash flows from investing activities		
Changes in non-cash working capital balances		
Accounts receivable	(402,521)	(285,753)
Accounts payable	1,032,532	1,786,178
Purchase of marketable securities	(93,594)	
Purchases of property, plant and equipment	(22,651,319)	(9,144,661)
Proceeds on disposition of property, plant and equipment	547,500	2,750,068
	(21,567,402)	(4,894,168)
Decrease in cash	(9,972)	(596,886)
Cash, beginning of year	16,220	613,106
Cash, end of year	$ 6,248	$ 16,220
Cash flow from operations per share – basic	$ 0.730	$ 0.088
– diluted	$ 0.697	$ 0.084

The accompanying notes are an integral part of these financial statements.

01 > NATURE OF OPERATIONS

The Company was incorporated on December 5, 1986 pursuant to the Alberta Business Corporation Act. Since inception, the Company's efforts have been devoted to the production of oil and gas revenues.

02 > SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgement with reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include the accounts of Purcell Energy Ltd. (the "Company") and its wholly-owned subsidiaries 421416 Alberta Ltd., 641294 Alberta Ltd. and 757382 Alberta Ltd. and the Company's proportionate interest in the accounts of Northcor Exploration Fund 1988 and Western Exploration Fund 1988.

(b) Inventories and revenue

Revenue is recognized on production and inventories of petroleum products are valued at the lower of cost and net realizable value. Inventories of operating supplies and raw materials are also valued at the lower of cost and net realizable value.

(c) Prepaid expenses and deposits

Prepaid expenses and deposits include deposits on forward sales contracts and deposits to secure pipeline space to deliver gas in future periods (Note 10(d)).

(d) Property, plant and equipment

The Company follows the full cost method of accounting for oil and gas operations whereby all costs of exploring for and developing oil and gas reserves are initially capitalized. Such costs include land acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling and overhead charges directly related to acquisition and exploration activities.

Costs capitalized, together with the costs of production equipment, are depleted on the unit-of-production method based on the estimated gross proved reserves. Petroleum products and reserves are converted to equivalent units of natural gas at approximately 6,000 cubic feet to 1 barrel of oil.

Costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Proceeds from a sale of petroleum and natural gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale would significantly alter the rate of depletion. Alberta Royalty Tax Credits are included in oil and gas sales.

In applying the full cost method, the Company performs a ceiling test which restricts the capitalized costs less accumulated depletion and amortization from exceeding an amount equal to the estimated undiscounted value of future net revenues from proved oil and gas reserves, as determined by independent engineers, based on sales prices achievable under existing contracts and posted average reference prices in effect at the end of the year and current costs, and after deducting estimated future general and administrative expenses, production related expenses, financing costs, future site restoration costs and income taxes.

(e) Joint venture operations

The majority of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(f) Environmental and site restoration costs

A provision for environmental and site restoration costs is made when restoration requirements are established and costs can be reasonably estimated.

(g) Marketable securities

Marketable securities are carried at the lower of cost and market.

(h) Flow-through equity instruments

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share/warrants arrangements are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a charge to share capital when the expenditures are incurred. No liability regarding future taxes is recorded on unexpended flow-through share capital.

(i) Financial instruments

The Company carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

The Company periodically utilizes custom financial instruments to reduce its exposure to fluctuations in commodity prices. Such instruments are not used for trading purposes. Gains and losses on commodity price instruments are included in oil and gas sales on settlement.

(j) Measurement uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment and the provision for future site restoration and reclamation are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes and estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the financial statements resulting from such adjustments, if any, will be reflected prospectively.

(k) Future income taxes

Effective January 1, 2000, the Company has adopted the recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. The new method was applied retroactively without restatement of the prior years. Under the recommendations, the liability method of tax allocation is used, based on differences between financial reporting and tax bases of assets and liabilities. Previously, the Company followed the deferral method.

(l) Stock based compensation plan

The Company has a stock-based compensation plan as per Note 7. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock options cancelled will be charged to retained earnings.

(m) Per share amounts

Basic earnings per common share and cash flow from operations per common share are computed by dividing earnings and cash flow from operations by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised

or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments, in accordance with new standards approved by the Canadian Institute of Chartered Accountants.

03 > SHARE PURCHASE LOANS

Included in accounts receivable are loans of $92,500 (1999 - $92,500) due from employees of the Company who are key members of the Company's management team. These loans were made for market purchases of stock of the Company. The loans are unsecured and bear interest at prime payable monthly. The employee loans are due on December 31, 2001. An additional $163,250 was advanced to certain employees to acquire common shares upon exercise of options. These loans have been netted against equity. The loans were repaid subsequent to the year end.

04 > PROPERTY, PLANT AND EQUIPMENT

	2000	1999
Cost		
Oil and gas properties		
Exploration, development and related equipment expenditures	**$ 55,053,736**	$ 32,790,629
Property costs, net of dispositions	**13,889,337**	13,054,385
	68,943,073	45,845,014
Furniture and equipment	**421,685**	274,165
Total cost	**69,364,758**	46,119,179
Less: Accumulated amortization and depletion	**(18,517,644)**	(13,725,457)
Net book value	**$ 50,847,114**	$ 32,393,722

During the year, approximately $520,000 (1999 - $468,000) of general and administrative costs were capitalized to oil and gas properties. As at December 31, 2000, costs of acquiring unproved properties in the amount of $2,500,000 (1999 - $2,400,000) were excluded from depletion calculations.

Included under property, plant and equipment are assets under capital lease at original cost of $758,662 (1999 - $758,662) less accumulated amortization of $205,013 (1999 - $157,849).

05 > OBLIGATIONS UNDER CAPITAL LEASES

The Company has several agreements to lease oil and gas production equipment under a $750,000 credit facility with a Canadian chartered bank. These leases have implicit rates of interest varying from 5.28% to 5.66%. The following is a schedule of the aggregate future minimum lease payments under the terms of the leases:

	2000	1999
2000	**$ –**	$ 228,115
2001	**81,917**	81,917
2002	**5,508**	5,508
Total minimum lease payments	**87,425**	315,540
Less deferred financing charges	**(2,676)**	(15,035)
Obligation under capital leases	**84,749**	300,505
Less current portion	**(79,287)**	(215,756)
	$ 5,462	$ 84,749

06 > LONG TERM DEBT

	2000	1999
Bank operating loan	**$ 6,520,000**	$ 1,667,000
Bank overdraft	**1,180,428**	1,043,994
Bank non-revolving facility	**6,000,000**	–
	$ 13,700,428	$ 2,710,994

During the year, the Company secured a new revolving credit facility of $16,500,000 (1999 - $6.5 million) with a Canadian chartered bank. Interest is charged at the bank's prime rate plus 1/4% per annum on the bank operating loan while the rate on the banker's acceptances approximates the prime rate. The facility is supported by a general security agreement and a hypothecation of a fixed and floating charge debenture in the amount of $50 million (1999 - $15 million) supported by oil and gas properties. The facility will be reviewed prior to May 31, 2000 and if not renewed, shall be converted to a term facility with a term not exceeding 5 years. It is the Company's belief that this facility will be renewed.

The Company has also secured a non-revolving facility where the Company has borrowed up to its limit of $6,000,000 (1999 - $4,000,000), by way of advances. Advances are to be repaid in full by May 31, 2001 and bear interest at prime plus 1 1/4% per annum. The Company intends to replace the facility with an increased revolving credit facility.

07 > EQUITY INSTRUMENTS

Authorized

The authorized share capital of the Company consists of an unlimited number of:

- Common voting shares;
- Preferred non-voting shares issuable in series, rights to be determined on issue; and
- Series I convertible preferred shares.

The common shares are entitled to dividends in such amounts as the directors may from time to time declare and, in the event of liquidation, dissolution or winding-up of the Company, are entitled to share pro rata in the assets of the Company.

The preferred shares rank in priority to the common shares as to the payment of dividends and as to the distribution of assets in the event of liquidation, dissolution or winding-up of the Company. Preferred shares may also be given such other preferences over the common shares as may be determined for any series authorized to be issued.

Issued

Common shares	2000		1999	
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**24,796,540**	**$ 29,175,340**	22,207,540	$ 23,824,354
Issued in exchange for services net issue cost of $327		–	200,000	199,673
Issued on exercise of broker warrants	–	–	300,000	450,000
Issued on exercise of options	**772,900**	**797,695**	89,000	86,000
Issued on exercise of share purchase warrants	**1,000,000**	**3,100,000**	2,000,000	4,615,313
Repurchase of shares under normal course issuer bid (net of future taxes of $794)	**(2,000,000)**	**(2,402,892)**	–	–
Balance, before share purchase loans	**24,569,440**	**30,670,143**	24,796,540	29,175,340
Share purchase loans (Note 3)	–	**(163,250)**	–	–
Balance, end of year	**24,569,440**	**$ 30,506,893**	24,796,540	$ 29,175,340

During 2000, the Company repurchased 2,000,000 of its common shares at a purchase cost of $7,153,196 resulting in a $529,818 reduction in contributed surplus and a $4,219,692 decrease in retained earnings.

The legal stated common share capital of the Company under the Business Corporations Act is $4,263,888 (1999 - $9,012,412) in excess of the amount carried in the accounts of the Company. The weighted average number of shares outstanding for 2000 was 24,509,760 (1999 - 22,837,437).

Special share purchase warrants		2000		1999
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	–	$ –	–	$ –
Share purchase warrants				
Issued in the year	**1,500,000**	**6,225,000**	2,000,000	5,000,000
Less: issue costs (net of future taxes of $147,184)	–	**(182,825)**	–	(384,687)
	1,500,000	**6,042,175**	2,000,000	4,615,313
Share purchase warrants exchanged for common shares	–	–	(2,000,000)	(4,615,313)
Balance, end of year	**1,500,000**	**$ 6,042,175**	–	$ –

On November 21, 2000 the Company completed private placements for an aggregate of 1,500,000 flow-through special warrants at a price of $4.15 for each special warrant for gross proceeds of $6,225,000. One special warrant is exchangeable for one common share at no additional cost. A final prospectus was receipted on March 21, 2001.

During the year ended December 31, 1999, the Company issued 2,000,000 special share purchase warrants, convertible into 2,000,000 common shares for gross proceeds of $5,000,000 and 1,000,000 warrants. At December 31, 1999 all special share purchase warrants had been exchanged for common shares.

Preferred shares		2000		1999
	Number of Shares	**Amount**	Number of Shares	Amount
Balance, beginning of year	**2,276**	**$ 128,000**	2,276	$ 128,000
Balance, end of year	**2,276**	**$ 128,000**	2,276	$ 128,000

The preferred shares earn cumulative dividends at 5% and were convertible into 76,815 Common shares on or before December 31, 1997 at the option of the holder. No preferred shares were converted prior to December 31, 1997 so the conversion privilege has expired. The preferred shares are redeemable at $56.25 per share. Preferred shares dividends in arrears as at December 31, 2000 amounted to $34,765 (1999 - $27,965).

	2000	1999
Contributed surplus		
Balance, beginning of year	**$ 529,818**	$ 529,818
Repurchase of shares pursuant to normal course issuer bid	**(529,818)**	–
Balance, end of year	**$ –**	$ 529,818

Options

The Company has a stock option plan under which employees, directors and consultants are eligible to receive grants. On December 31, 2000, 4,000,000 (1999 - 4,000,000) common shares were reserved for issuance under the plan. Options granted under the plan generally have a term of five years to expiry and vest equally over a three year period starting on the first anniversary date of the grant. The exercise price of each option equals or exceeds the market price of the Company's common shares on the date of the grant. At December 31, 2000, 2,425,100 options with exercise prices between $0.70 and $3.75 were outstanding and exercisable at various dates to the year 2005.

	2000		1999	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock options, beginning of year	**2,581,000**	**$ 1.42**	1,901,000	$ 0.91
Granted	**617,000**	**3.35**	819,000	2.55
Exercised	**(772,900)**	**1.03**	(89,000)	0.97
Cancelled	–	–	(50,000)	0.90
Stock options outstanding, end of year	**2,425,100**	**$ 2.03**	2,581,000	$ 1.42
Exercisable, end of year	**1,308,871**	**$ 1.29**	1,706,183	$ 1.18

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
Under $1.00	631,900	2.4	$ 0.73	598,570	$ 0.73
$1.00 - $1.99	485,500	1.3	1.11	431,836	1.09
$2.00 - $2.99	705,700	3.9	2.70	238,468	2.70
$3.00 and over	602,000	4.9	3.37	39,997	3.51
	2,425,100	3.3	$ 2.03	1,308,871	$ 1.29

Warrants

At December 31, 2000, there were nil (1999 - 1,000,000) warrants outstanding. During 2000, warrants to purchase 1,000,000 (1999 - 300,000) shares were exercised for total consideration of $3,100,000 (1999 - $450,000).

08 > CORPORATE TAXES

The effective rate of income tax varies from the statutory rate as follows:

	2000	1999
Combined tax rate	**44.6%**	44.6%
Expected income tax provision (recovery) at statutory rate	**$ 5,973,747**	$ 110,168
Differences due to resource deductions	**(1,098,322)**	199,223
Other differences	**33,394**	26,631
Unrecognized future tax asset	–	(336,022)
Provision for large corporations and provincial capital taxes	**259,394**	164,887
Actual income tax provision	**$ 5,168,213**	$ 164,887

Subject to confirmation by income tax authorities, the Company has the following approximate undeducted tax pools:

	2000	1999
Cumulative Canadian Oil and Gas Property Expenses *	**$ 3,592,000**	$ 3,142,000
Cumulative Canadian Development Expenses *	**$ 2,577,000**	$ 3,677,000
Cumulative Canadian Exploration Expenses *	**$ 1,717,000**	$ 11,759,000
Undepreciated Capital cost	**$ 18,741,000**	$ 7,731,000
Non-capital losses carried forward for tax purposes available from time to time until 2006	**$ 11,024,000**	$ 4,796,000
Share issue costs	**$ 787,000**	$ 771,000
Net capital losses carried forward	**$ 60,000**	$ 60,000

These pools are deductible from future income at rates prescribed by the Canadian Income Tax Act.

* Certain tax pools acquired are successored and can only be used against income generated from certain properties.

The components of the Company's future income tax liabilities are a result of the origination and reversal of temporary differences and are comprised of the following:

Nature of temporary differences	2000	1999
Capital assets	**$ 10,469,962**	$ –
Share issue costs	**(350,836)**	–
Unused tax losses carryforward	**(4,916,600)**	–
Future income tax liability (asset)	**$ 5,202,526**	$ –

09 > RELATED PARTY TRANSACTIONS

During the year ended December 31, 2000, the Company:

(a) charged $19,702 of interest to Liard Resources Ltd. ("Liard");
(b) paid net loan payments of $99,053 to Liard; and
(c) charged $6,690 of interest on loans to employees as detailed in Note 3.

Liard is a shareholder of the Company and is related by virtue of having common management. Included in accounts receivable is an amount due from Liard of $273,263 (1999 - $174,210). The balance earned interest at prime plus 1% per annum from January 1, 1998 to December 31, 2000. Subsequent to December 31, 2000, Liard paid to the Company $175,000 of the receivable balance.

Directors, officers and individuals related to the directors/officers of the Company subscribed for 153,000 flow through special warrants at a total cost of $634,950.

During the year ended December 31, 1999, the Company:

(a) charged $8,681 of interest to Liard;
(b) received net loan repayments of $20,000 from Liard; and
(c) charged $5,973 of interest on loans to employees as detailed in Note 3.

All related party transactions have been recorded at the exchange amounts in the accounts of the Company.

10 > COMMITMENTS

(a) Office lease

The Company is committed to a lease agreement for office space expiring November 30, 2004. In addition to operating costs, the lease requires annual minimum lease payments as follows:

2001	$ 104,257
2002	147,974
2003	162,547
2004	149,001

(b) Natural gas

The Company has entered into contracts to deliver and purchase natural gas. The terms of the contracts are summarized as follows:

Commencement date	Expiry date	Maximum daily contract quantity	Fixed price per unit before delivery expenses
Delivery contracts			
November 1, 1999	November 1, 2002	2,000 GJ	$2.41
November 1, 2000	November 1, 2001	10,000 MMBtu	US$4.03
November 1, 2000	November 1, 2001	5,000 MMBtu	US$4.915
Purchase contracts			
April 1, 2001	November 1, 2001	15,000 MMBtu	US$5.0414

(c) Foreign exchange

On October 25, 2000, the Company entered into foreign exchange contracts with a Canadian chartered bank to deliver US $1,750,000 and receive CDN $2,636,900 each month from December 2000 to November 2001.

(d) On December 6, 2000, the Company entered into an agreement wherein it will pay $1,550,000 to have its gas brought to market for the year ending December 31, 2001. The Company has also paid $1,500,000 to secure pipeline space to deliver 20 mmcf per day for the period April 1, 2001 to October 31, 2001. The Company has also paid $3,500,000 as a performance bond which will be refunded as payments are made under the gas purchase contract.

(e) As at December 31, 2000 the Company has a $1.0 million irrevocable letter of credit outstanding payable on account of the National Energy Board with respect to certain tie-in activities underway in Fort Liard. The letter of credit expires May 31, 2001.

11 > CHANGE IN ACCOUNTING POLICY

(a) Future income taxes

Effective January 1, 2000 the Company adopted the liability method of accounting for income taxes as recommended by the Canadian Institute of Chartered Accountants on a retroactive basis. The Company has adopted the accounting policy without restatement of the prior years results. The impact of these changes on the December 31, 2000 financial statements is as follows:

Increase (decrease):	
Opening deficit	$ (470,888)
Capital assets	841,940
Future income tax liabilities	5,202,526
Common shares	794
Special warrants	148,184
Future income tax expense	4,908,819
Net income for the year ended December 31, 2000	(4,908,819)

Prior to the current year, the Company had used the deferral method of income tax allocation. Under this method, the income tax provision is based on accounting income computed at current tax rates without subsequent adjustments to reflect changes in income tax rates.

(b) Per share amounts

The Canadian Institute of Chartered Accountants has approved a new standard for the computation, presentation and disclosure of earnings per share. In the fourth quarter of fiscal 2000, the Company retroactively adopted the new standard. Under the new standard the treasury stock method is used instead of the imputed earnings method to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

In computing diluted earnings and cash flow from operations per share 1,146,515 shares were added to the weighted average number of common shares outstanding during the year ended December 31, 2000 (1999 - 1,107,751) for the dilutive effect of stock options. No adjustments were required to reported earnings or cash flow from operations in computing diluted per share amounts

Prior period diluted earnings per share and cash flow from operations per share have been restated for this change. If the imputed earnings method had been used to calculate these amounts, the reported amounts would have been:

	2000	1999
Diluted earnings per common share	**$ 0.302**	$ 0.011
Diluted cash flow from operations per common share	**$ 0.642**	$ 0.088

12 > FINANCIAL INSTRUMENTS

As disclosed in Note 2(i), the Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate, commodity price and industry credit risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

(a) Interest rate risk management

The Company's short and long-term borrowings are subject to floating rates. The floating rate debt is subject to interest rate cash flow risk, as the required cash flows to service the debt will fluctuate as a result of changes in market rates.

As at December 31, 2000, the increase or decrease in net earnings before taxes for each 1% change in interest rates on floating rate debt amounts to approximately $137,000 (1999 - $27,000) per annum. The related disclosure regarding these debt instruments is included in Note 6 of these financial statements.

(b) Commodity price risk

The Company is subject to commodity price risk for the delivery of natural gas and crude oil under the contracts detailed in Note 10(b). The Company managed the risk by delivering natural gas and crude oil received in kind on behalf of the Company and several sub-participants from the operations of various joint ventures. The sub-participants are not involved in the contracts, however, the Company pays the sub-participants for their share of gas/oil sold at the prices received by the Company. The obligations to deliver under the contracts are the sole responsibility of the Company.

(c) Credit risk

A significant portion of the Company's trade accounts receivable are from working interest partners in the oil and gas industry and, as such, the Company is exposed to all the risks associated with that industry.

13 > STATEMENT OF CASH FLOWS

(a) Commencing in 1999 the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants for the Statement of Cash Flows.

(b) Interest and income taxes paid

	December 31, 2000	December 31, 1999
Interest paid	**$ 1,018,442**	$ 286,647
Corporate taxes paid	**$ 326,230**	$ 109,911

(c) Equity instruments

During 1999, the Company issued 200,000 common shares at value of $1 per share amounting to $200,000 in exchange for services rendered that were capitalized as property, plant and equipment.

(d) Capital leases

During 1999, capital assets were acquired at a cost of $42,876 by means of capital lease.

14 > SUBSEQUENT EVENT

Subsequent to December 31, 2000 the Company issued 128,400 common shares upon the exercise of options for gross proceeds of $118,400.

15 > COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

FIVE YEAR SUMMARY

Years ended December 31

	2000	1999	1998	1997	1996
Revenues	**$ 24,750,387**	$ 6,137,650	$ 5,577,884	$ 5,670,633	$ 2,589,881
Cash flow	**17,889,657**	2,015,013	1,886,283	2,695,805	1,225,694
Per share*	**0.730**	0.088	0.096	0.192	0.138
Net income (loss)	**8,225,838**	247,013	(2,545,249)	221,147	1,010,797
Per share*	**0.335**	0.011	(0.130)	0.015	0.112
Working capital (deficiency)	**7,476,675**	(1,695,550)	244,701	(1,680,921)	(11,390)
Long-term debt	**13,705,890**	2,795,743	5,464,524	1,032,500	1,422,000
Capital expenditures, net	**22,103,819**	6,637,469	5,504,255	18,109,779	1,915,168
Capital assets	**50,847,114**	32,393,722	27,423,253	26,696,508	11,481,227
Common shares outstanding*	**24,569,440**	24,796,540	22,207,540	14,022,540	8,509,137
Shareholders' equity	**$ 38,670,373**	$ 27,349,429	$ 21,751,430	$ 23,713,619	$ 10,295,824

**Adjusted to reflect 1:2 share consolidation effective March 20, 1997*

RESERVES

	2000	1999	1998	1997	1996
Proved and probable at 10% discount ($000)	**$ 178,521**	$ 102,145	$ 63,736	$ 44,979	$ 35,965
Oil and liquids (mbbls)	**2,236**	2,519	1,420	3,502	277
Gas (bcf)	**89.1**	93.5	55	37	31

PRODUCTION

	2000	1999	1998	1997	1996
Oil and liquids (bbls/d)	**539**	584	479	456	138
Gas (mmcf/d)	**10.71**	3.68	4.87	4.04	1.96
BOE/d	**2,322**	1,197	2,102	1,268	465

LAND HOLDINGS

	2000	1999	1998	1997	1996
Net acres (undeveloped)	**52,846**	39,363	55,911	56,893	36,218

DRILLING (GROSS WELLS)

	2000	1999	1998	1997	1996
Gas	**3**	2	6	14	2
Oil	–	2	5	12	1
Dry and abandoned	–	–	2	8	1
Total	**3**	4	13	34	4

DRILLING (NET WELLS)

	2000	1999	1998	1997	1996
Gas	**0.42**	0.48	0.72	6	1.10
Oil	–	0.60	1.82	9	0.45
Dry and abandoned	–	–	.24	4.9	0.28
Total	**0.42**	1.08	2.78	19.9	1.83

CORPORATE INFORMATION

BOARD OF DIRECTORS

Jan M. Alston, B.A., LL.B.(1)
President & CEO
Purcell Energy Ltd.

Bernard A. Benning, MEd., MBA, CMA(2)
Director of Finance
Alberta Vocational College

Bruce J. Murray, B.Comm.
Chief Operating Officer
Purcell Energy Ltd.

John A. Niedermaier, B.Sc., P.Eng.(1)(2)
Petroleum Services Executive

Ronald J. Will, B.Sc.(1)(2)
Business Executive

(1) *Member of Audit Committee*
(2) *Member of Compensation Committee*

OFFICERS

Jan M. Alston
President & CEO

Bruce J. Murray
Chief Operating Officer

Terry L. Lindquist, B.Comm., C.A.
Chief Financial Officer

Richard Fedoruk, M.Sc., P.Geol.
Vice President, Exploration

Lawrence Backmeyer, B.Sc., P.Eng.
Vice President, Engineering

CORPORATE OFFICE

Bow Valley Square IV
Suite 950, 250 - 6 Avenue SW
Calgary, Alberta T2P 3H7

tel	(403) 269 5803
fax	(403) 264 1336
email	info@purcellenergy.com
web sites	purcellenergy.com
	purcellenergy2000.com

EVALUATION ENGINEERS

Gilbert Laustsen Jung Associates Ltd.
Suite 4100, 400 - 3 Avenue SW
Calgary, Alberta T2P 4H2

Martin & Brusset Associates
Suite 1000, 736 - 6 Avenue SW
Calgary, Alberta T2P 3T7

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: PEL

REGISTRAR & TRANSFER AGENT

Olympia Trust Company
Suite 2600, 700 - 9 Avenue SW
Calgary, Alberta T2P 3S8

BANKER

Scotiabank
240 - 8 Avenue SW
Calgary, Alberta T2P 2N7

LEGAL COUNSEL

Burnet, Duckworth & Palmer
First Canadian Centre
1400, 350 - 7 Avenue SW
Calgary, Alberta T2P 3N9

AUDITORS

BDO Dunwoody LLP
1500, 800 - 6 Avenue SW
Calgary, Alberta T2P 3G3

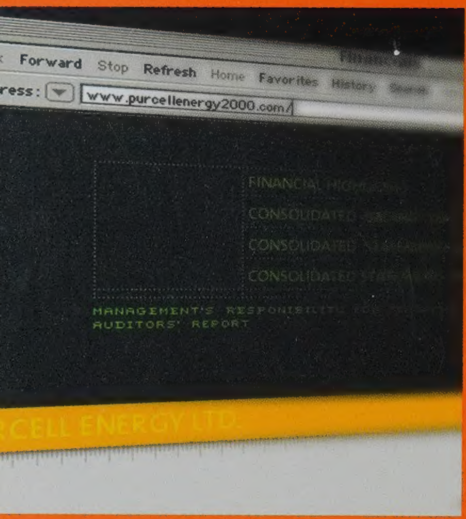
FORWARD LOOKING STATEMENTS

This report contains forward-looking statements with respect to Purcell. These statements involve risks and uncertainties that could cause actual results to differ materially from forecasts. These risks and uncertainties include commodity prices, well production rates, drilling success, timing and the successful implementation of the Company's business strategy.

STANDARD ABBREVIATIONS

bbl	barrel
bbls/d	barrels per day
mbbls	thousand barrels
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mmcf/d	million cubic feet per day
bcf	billion cubic feet
BOE	barrel of oil equivalent (based on converting 6 mcf of gas to one barrel)
BOE/d	barrels of oil equivalent per day

This annual report and the interactive annual report web site were developed by Melnyk Cary & Associates Ltd. (www.MelnykCary.com) and Content Incorporated. Photography by Jazhart Studios Inc. Printed in Canada by Sundog Printing Limited.



EXPLORE A MORE ACCESSIBLE, INTERACTIVE ANNUAL REPORT ONLINE

With this 2000 Annual Report, we are providing a companion, digital version that is user-friendly. While the information in print and online is identical, shareholders will find the interactive navigation much simpler to access.

Making better use of available technology is key to Purcell's approach to exploration. We are extending that approach to our internet link to investors and shareholders.

PURCELL ENERGY LTD.
Bow Valley Square IV
Suite 950, 250 - 6 Avenue SW
Calgary, AB T2P 3H7
tel (403) 269 5803
fax (403) 264 1336
email info@purcellenergy.com
web sites purcellenergy.com
purcellenergy2000.com